

Message Text

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ACTION ARA-20

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FOR FRECHETTE, ARA/LA/EP

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SUBJECT: BUSINESS OPPORTUNITIES LOST IN PERU

1. UNAVAILABILITY OF COMPETITIVE EXPORT FINANCING THROUGH EXIM BANK APPEARS TO HAVE BEEN PRINCIPAL ELEMENT IN LOSS OF FOLLOWING BUSINESS OPPORTUNITIES:

A. WESTINGHOUSE HAS BEEN UNABLE TO SUPPLY THIRD TURBO GENERATOR TO HUALLANCA HYDROELECTRIC PROJECT. LOSS: ABOUT \$7 MILLION.

B. CATERPILLER LOST OUT TO FIAT IN BID TO SUPPLY AGRICULTURAL MACHINERY TO MINISTER OF AGRICULTURE. LOSS: ABOUT \$6 MILLION.

C. SATCO BOUGHT THREE FOKKER AIRCRAFT RATHER THAN BOEING OR DOUGLAS. LOSS: ABOUT \$10 MILLION.

D. PERU HAS BOUGHT SOVIET AND FRENCH HELICOPTERS IN PLACE OF U.S. HELICOPTERS FOR OIL EXPLORATION. LOSS: DIFFICULT TO QUANTIFY PERHAPS SEVERAL MILLION DOLLARS.

E. IF SOUTHERN PERU COPPER COMPANY IS UNABLE TO OBTAIN EXIM FINANCING, MACHINERY SALES WILL GO TO EUROPEAN AND JAPANESE COMPANIES. LOSS: POTENTIALLY ABOUT \$200 MILLION PLUS COMMITMENT OF COPPER TO EUROPE AND JAPAN.

2. IN MORE GENERAL TERMS, U.S. MIGHT HAVE HAD OPPORTUNITY TO BID ON MANY OF CURRENT DEVELOPMENT PROJECTS LISTED IN CG CONTEXT. IN FACT, SENIOR COFIDE OFFICIAL RECENTLY TOLD EMBASSY OFFICER THAT COFIDE WAS IN PROCESS OF SECURING FINANCING FOR SEVERAL PROJECTS

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WHICH COULD INVOLVE IMPORTS OF SUPPLIES AND EQUIPMENT

TOTALLING PERHAPS \$300 MILLION. OWING TO CURRENT U.S. POLICY, THIS OFFICIAL SAID, NONE OF THIS COULD BE BOUGHT IN U.S. DESPITE FACT THAT IN MAJORITY OF CASES U.S. WOULD OTHERWISE HAVE BEEN PREFERRED SOURCE OF SUPPLY. WHILE COFIDE OFFICIAL DID NOT GO INTO DETAILS, BOTH ILO COPPER REFINERY (\$31.2 MILLION IN EXTERNAL FINANCING) AND TRUNK MICROWAVE NET (\$13.3 MILLION IN EXTERNAL FINANCING), NOW BEING BUILT BY JAPAN, HAVE PREVIOUSLY BEEN CITED AS PROJECTS FOR WHICH U.S. MIGHT OTHERWISE HAVE HAD CHANCE OF MAKING SALES. SIMILARLY, JAPANESE NOW HAVE INSIDE TRACK ON OIL PIPELINE (\$339.6 MILLION IN EXTERNAL FINANCING).

3. U.S. FIRMS ARE ALSO EFFECTIVELY PREVENTED FROM SELLING ITEMS TO PERU WHICH MIGHT LATER BE RE-EXPORTED TO CUBA. PERU IS UNDER CONTRACT TO SUPPLY 12 TUNA CLIPPERS AND 98 SHRIMP BOATS WORTH NEARLY \$30 MILLION TO CUBA. SPECIFICATIONS ORIGINALLY CALLED FOR ENGINES AND OTHER EQUIPMENT OF U.S. ORIGIN. CATERPILLER WAS CONSTRAINED FROM SUPPLYING THESE ENGINES BECAUSE OF U.S. EXPORT CONTROL AND CUBAN ASSETS CONTROL REGULATIONS. IMMEDIATE LOSS OF SALE WAS ABOUT \$2 MILLION TO GERMANY. A MORE LONG RANGE EFFECT FEARED BY CATERPILLER IS THAT PERUVIANS MAY NOW REDESIGN ALL BOATS THEY BUILD TO NON-U.S. SPECIFICATIONS WHICH COULD COST CATERPILLER A MARKET CURRENTLY WORTH \$2.5 MILLION TO \$5 MILLION ANNUALLY.

4. IN MORE GENERAL TERMS, HICKENLOOPER AND GONZALES AMENDMENTS HAVE UNDOUBTEDLY COST U.S. HEAVILY THROUGH PERPETUATING ADVERSE POLITICAL AND ECONOMIC CLIMATE. BOTH GRACE AND CERRO SITUATIONS MIGHT NOW BE CONSIDERABLY BRIGHTER WERE IT NOT FOR EXISTENCE RETALIATORY LEGISLATION, AND CERRO MIGHT EVEN BE PROCEEDING WITH \$120 MILLION EXPANSION. THE SAME APPLIES TO THE NOW MRRIBUND GRACE EXPANSION PLANS PUSHED SO LONG AND HARD BY LAWDER HERE AND IN WASHINGTON. BOTH INVOLVED EX-IM AND WORLD BANK FINANCIAL PACKAGES. BELCHER

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